

**Staff
Summary
Report**



To: Mayor & City Council

Agenda Item Number 41
Meeting Date: 10/18/01

**SUBJECT: JENTILLY/TERRACE NON-PROFIT HOUSING DEVELOPER
SELECTION RESOLUTION No. 2001.61**

PREPARED BY: Neil Calfee, Principal Planner (480-350-2912)

APPROVED BY: Steve Nielsen, Community Design and Development Director (480-350-8294)

BRIEF: Resolution selecting a non-profit organization as prime developer of city-owned residential lots in the Jentilly/Terrace Neighborhood..

COMMENTS: REAL PROPERTY DISPOSITION (0902-21-01) RESOLUTION NO. 2001.61 Request approval by the **CITY OF TEMPE** of Resolution No.2001.61 for the selection of Community Land Trust of Tempe (CLTT) as prime developers of City-owned residential lots located at 1425 S. Stanley Place and 1424 S Kenneth Place in the Jentilly/Terrace Neighborhood of Tempe.

Document Name: 20011018devsrh06 **Supporting Documents:** Yes

SUMMARY: The non-profit organization, Community Land Trust of Tempe has responded to the City's August 6, 2001 RFP for the development of City-owned residential lots located at 1425 S. Stanley Place and 1424 S Kenneth Place in the Jentilly/Terrace Neighborhood. The purpose of the adoption of Resolution No. 2001.61 is to select CLTT as prime developer for the housing development site with exclusive rights to negotiate a Development and Disposition Agreement with the City for the development of the site.

HISTORY AND FACTS: The August 6th RFP for non-profit entities to develop low and moderate income housing included three lots within the Jentilly/Terrace Neighborhood (South of Apache, East of Rural). Responses were received from the Community Land Trust of Tempe (CLTT) and Housing for Mesa (HFM). A panel of Neighborhood Representatives, Community Development Professionals, and City Staff reviewed the responses. That panel included:

- Jeff Hansen, Jentilly/Terrace Neighborhood Chair
- Phil Amorosi, Hudson Manor Neighborhood Chair
- Carol Smith, Market Community Reinvestment Act Officer – Bank One
- Martina Kuehl, Technical Assistance Coordinator – AZ Dept. of Commerce
- Terri Amabisca, Housing Services Director
- Steve Venker, Planning & Zoning Manager
- Neil Calfee, Redevelopment Planning Manager

Both responses were similar in scope and type of construction, CLTT requested two lots while HFM requested all three. The responses differed in the philosophy and practice of how affordability would be achieved. The panel supported each proposal contingent upon additional clarification and information being provided by each respondent. Prior to final review and selection, HFM withdrew from consideration. The panel has recommended that CLTT be awarded two of the three lots.

Attached for the City Council's review and approval is Resolution No. 2001.61, which, if approved, will select the Community Land Trust of Tempe as prime developer for the development of housing for low and moderate income people on City-owned residential lots located at 1425 S. Stanley Place and 1424 S Kenneth Place in the Jentilly/Terrace Neighborhood. The resolution also provides for an exclusive negotiation period for negotiation of a Development and Disposition Agreement (DDA) between the developer and the City. The DDA will provide for the development of the residential sites. The proposal, and associated materials, from CLTT is attached for the City Council's review. All funding for the construction of the CLTT homes would come from non-City of Tempe sources.

Additionally, Staff is proposing the reissuance of the RFP for the remaining lot at 1425 S. Kenneth Place for a period of 30 days.

FISCAL NOTE:

The City utilized CDBG funds to acquire these parcels as part of the City's Homeowner Rehabilitation Program. It is proposed that the lots will be provided to CLTT at no cost and that the CDBG Program will pay all City of Tempe development fees for the construction of the house.

RECOMMENDATION:

Approval of Resolution No. 2001.61 authorizing exclusive negotiation with CLTT for the purposes of constructing low income housing on two lots. Direct staff to issue a new Request for Proposals for the remaining lot at 1425 S. Kenneth Place.

RESOLUTION NO. 2001.61

A RESOLUTION BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, SELECTING COMMUNITY LAND TRUST OF TEMPE OR THEIR NOMINEES AS PRIME DEVELOPERS OF CERTAIN REAL PROPERTY IN TEMPE, ARIZONA.

WHEREAS, the City of Tempe owns certain real property located at 1425 S. Stanley Place and 1424 S Kenneth Place in the Jentilly/Terrace Neighborhood of the City of Tempe, Arizona as more particularly described on the Exhibit "A" attached hereto; and

WHEREAS, on August 6, 2001, the City of Tempe issued a Request for Proposals (RFP), requesting proposals for the development of housing for low and moderate income people on that certain real property described on the attached Exhibit "A"; and

WHEREAS, Community Land Trust of Tempe submitted a development proposal, acceptable to the City Council, for the development of housing on the City-owned real property.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, as follows:

Section 1: That, Community Land Trust of Tempe or their nominee be selected as prime developer to develop the City-owned real property described in the attached Exhibit "A" substantially as proposed in their development proposal submitted in response to the City of Tempe's Request for Proposals, subject to the City of Tempe's normal development approvals. Further, that CLTT or their nominee be given a 90-day exclusive negotiation period in which to negotiate a Development and Disposition Agreement with the City of Tempe for the development of the property.

Section 2: That the City Attorney be and hereby is authorized and directed to negotiate with CLTT or their nominee a Development and Disposition Agreement for the development of the property.

**PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF
TEMPE, ARIZONA, this _____ day of _____, 2001.**

Neil G. Giuliano, Mayor

ATTEST:

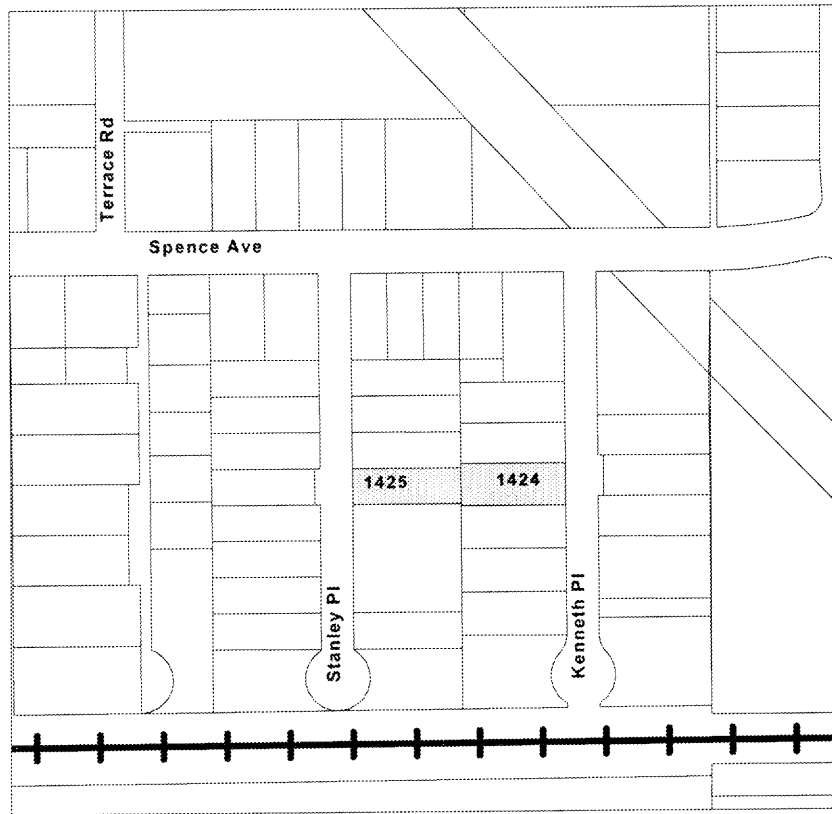
City Clerk

APPROVED AS TO FORM:

City Attorney

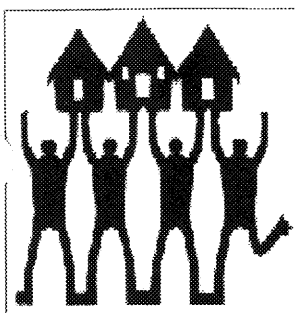
EXHIBIT “A”

LEGAL DESCRIPTION:



1425 S. Stanley Place – Parcel #133-09-063
Stanley Plat Lot 13

1424 S. Kenneth Place - #133-09-048A
The South 58 feet of the North 322 feet of Kenneth Place Lot 6



**Community
Land Trust
of Tempe**

Michael Patten, President

**Richard Erdmann, Vice-
President**

**Pen E. Johnson,
Secretary/Treasurer**

Board of Directors:

**Fredericka Clarke
Luis Fernandez
Richard Gart
Spike Lawrence
Xavier Morales
Bonnie Richardson
Charles D. Vester
William G. Was, Jr.
Elizabeth Wilson
Peggy Wright**

*To develop and
sustain community
investments through
public stewardship of land
in Tempe*

PO Box 2427
Tempe, AZ 85280
tel. 480 350 8948
fax 480 350 8579
www.tempe.gov

6 August 2001

Steve Nielsen, Director
Community Design & Development
City of Tempe
31 E. Fifth St.
Tempe, AZ 85281

RE: JenTilly Terrace Request for Proposals (2001.02)

Dear Mr. Nielsen:

Enclosed please find one original and 21 copies of the Community Land Trust of Tempe's (CLTT) response to the above referenced request for proposals.

The land trust model of homeownership ensures long-term affordability for future generations, thereby making it a fiscally and socially responsible investment for the city. The CLTT is excited to present this venture to you in collaboration with our development partner, Neighborhood Housing Services of Phoenix, Inc.

Thank you for your careful review and consideration. Please contact me at (602) 256-6100 should you have any questions.

Sincerely,

**Michael Patten
President**

Proposal Offer

It is **MANDATORY** that Proposal Offeror **COMPLETE, SIGN** and **SUBMIT** the original of this form to the Neighborhood Planning, Urban Design & Development Division with the (your) proposal offer. An unsigned "Proposal Offer" and/or late proposal response will be considered non-responsive and rejected.

This Proposal is offered by: Community Land Trust of Tempe
Company/Organization Name (typed)

To the City of Tempe:

By signing this Proposal Offer, Offeror acknowledges acceptance of all conditions contained herein. Offeror certifies that the proposal offered was independently developed without consultation with any of the other offerors or potential offerors.

For clarification of this Proposal Offer, contact:

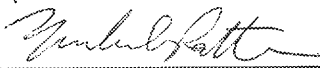
<u>Michael Patten</u>	<u>Board President</u>	<u>(602) 256-6100</u>
Proposal Offeror Contact	Title	Phone

Community Land Trust of Tempe
Name of Company

<u>P.O. Box 2427</u>	<u>Tempe</u>	<u>AZ</u>	<u>85280</u>
Company Address (or PO Box)	City	State	Zip

This Proposal is Offered by:

<u>Michael Patten</u>	<u>Board President</u>	<u>(602) 256-6100</u>
Authorized Proposal Offeror	Title	Phone


Signature of Authorized Offerer Required

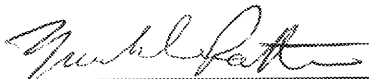
6 August 2001
Date of Proposal Offer

Request for Proposal # 2001.02

Release Form

For and in consideration of the City of Tempe's acceptance of receipt, consideration and evaluation of the materials narratives, photographs, financial statements and specifications, etc. submitted by the undersigned respondent, in response to the foregoing Request for Proposals #2001.02, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, Respondent, for and on behalf of itself, and on behalf of each of its parents, subsidiaries, affiliates, partners, officers, directors, employees, agents, predecessors, successors and assigns, and any others who may claim by, through, under or on behalf of any of them, does hereby remise, release and forever discharge the City of Tempe, the City of Tempe Council and each of their respective elected and appointed officials, directors, employees, supervisors, members, commissioners and agents (collectively "Releasees") of and from any and all claims and liability relating to, arising out of or in connection with the Request for Proposals or any actions or decisions taken or made by any releasee in connection with the identification, selection and contracting for the development described in the Request for Proposals.

IN WITNESS WHEREOF, and intending to be legally bound, the undersigned has caused this Release to be executed this 1st day of August, 2001.




Respondent

STATE OF ARIZONA)
)ss.
COUNTY OF MARICOPA)

This instrument was acknowledged before me this 1st day of

August, 2001 by Mary K. Statsmann representing City of Tempe

Notary Public  OFFICIAL SEAL
MARY K. STATSMANN
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Dec. 1, 2004
My commission expires 12/1/04

Project Proposal

The Community Land Trust of Tempe (CLTT), working in collaboration with Neighborhood Housing Services of Phoenix (NHSP), proposes to construct two single-family homes – one at **1425 S. Stanley Place** and one at **1422 S. Kenneth Place**. The homes will, in turn, be sold to low to moderate-income homebuyers using the land trust form of ownership (described further in the “Maximization of Resources” section).

The following narrative corresponds to the “Criteria for Developer Selection” outlined in the Request for Proposals.

Experience

A steering committee of community stakeholders representing (among others) the city, NewTown CDC, Tempe Community Council, and Arizona State University began exploring the land trust model in January 2000. Almost one year later, the Community Land Trust of Tempe was incorporated as a private non-profit with a thirteen-member board of directors (Exhibit 1). The CLTT is a membership organization with members drawn from the land-trust leaseholders and the wider community. CLTT members elect a governing board that includes leaseholders, nonresident members, and others who represent the broader community interest; membership is available to anyone supporting the mission of the trust. The trust itself has not yet developed any projects; however, there is significant development experience on the board. Since this is the CLTT's first venture, we have chosen to collaborate with an experienced and well-respected non-profit housing developer – Neighborhood Housing Services of Phoenix (NHSP). This formal relationship promises to build the capacity of the trust. Incidentally, a recent housing assessment commissioned by the Apache Boulevard Project Area Committee (Fall Creek Consultants, May 2001), within which the JenTilly Terrace neighborhood falls, actually encouraged expanding the role of the CLTT and identified NHSP as a “key partner”.

NHSP provides a full range of programs and services to encourage, create, and support homeownership. Barriers to homeownership are addressed with three major programs through the NeighborWorks HomeOwnership Center: education and counseling services, special mortgage programs meeting the needs of low and moderate-income borrowers, and the development of affordable homes.

NHSP has been a contributor to the revitalization efforts in the Phoenix area for 26 years. Through the years, NHSP has offered a variety of programs to adapt to the target neighborhoods served. Since 1975, NHSP has been a partner with the Coronado, University/Oakland Park, Garfield Eastlake, and most recently Isaac neighborhoods. In the Coronado neighborhood, NSHP partnered with J.F. Long and Western Savings to construct the first infill project in Phoenix. Along with the infill, NHSP provided assistance and financing for renovation of homes and assisted the community in obtaining specific historic designations. Through 1990, NHSP continued to rehabilitate homes, provide low-interest home improvement loans, and offered a lease/purchase program.

Declaring a success in the Coronado neighborhood in 1991, NHSP expanded into Garfield to provide infill housing. Since this time, NHSP has constructed and/or renovated 54 homes. They have provided the permanent mortgage financing on several other homes in Garfield, including four City of Phoenix Reconstruct Program participants.

NHSP currently has six new houses under construction, one rehabilitation in process, and is pursuing environmental and archaeological clearances on four lots for future new homes in Garfield. NHSP also has five new houses in the permitting process. A current development schedule is attached as Exhibit 2.

Additionally, NHSP has provided homebuyer education and counseling to over 2,800 families. Of these, over 600 have become homeowners. Nearly half have received a loan from NHSP, with the total value of these loans exceeding \$5.3 million.

Maximization of Resources

The CLTT recognizes the donation of land for the development of affordable housing is a substantial investment on behalf of the community; therefore, the trust will utilize it to its utmost potential.

The proposed units are 1,339 square foot, 3 bedroom/2 bath detached single-family homes (Exhibit 3). The units offer a "recessed" one car garage, a one car carport, and a patio and cover about 27% of each lot - thereby offering numerous landscaping opportunities. (The current zoning allows for up to 40% lot coverage).

NHSP is most certainly a local "resource" for affordable housing and neighborhood revitalization initiatives. As previously mentioned, forming an alliance with NHSP allows the JenTilly Terrace neighborhood, as well as the city, to benefit from the skill and expertise of this nationally recognized organization.

We believe the strategy most likely to offer the city the greatest return on its investment is the dual ownership structure utilized by the CLTT. The way in which the CLTT protects the community's long-term interest is by continuing to own land while conveying the long-term use of the land to individuals. Terms of the arrangement (including an owner-occupancy restriction) between the CLTT and an owner are defined in a long-term land lease. The land trust offers leaseholders security, an opportunity to transfer the lease to their heirs and full rights of privacy. Furthermore, the CLTT protects affordability for future residents by controlling the sale of housing on their land. Specifically, the CLTT retains an option to repurchase these improvements – if residents choose to sell – at a limited price. The CLTT lease agreement includes a formula for calculating this price that offers resident-owners fair compensation for their investment. In this way, the CLTT preserves the community's investment of public and private resources (time, treasures, and talent) that go into making housing affordable. Perhaps this is best illustrated by the following example:

	<u>CLTT</u>	<u>Market</u>
When you buy, property is worth	\$135,000	\$135,000
House	\$ 95,000	
Land	\$ 40,000	
You pay	\$ 95,000	\$135,000
Income required	\$ 35,000	\$ 46,000
10 years later the house is worth	\$ 142,500	\$202,500 (inc. land)
Appreciation	\$ 47,500	\$ 67,500
Seller's share of appreciation	\$ 11,875 (25%)	\$ 62,775 (93%)
You can sell for/Next buyer pays	\$ 106,875	\$202,500
Income required by next buyer	\$ 36,000	\$ 67,000

Using this approach, the land trust is able to build a portfolio of permanently affordable homeownership opportunities for generations to come.

Organizational Capacity

As previously mentioned, various members of the CLTT board have years of development experience. This experience will compliment that of our development partner, NHSP.

The strength of NHSP's organizational capacity is evidenced by its development team:

Rita Carrillo, President – Rita has been the Executive Director and President of NHSP for eight years. She has planned and managed the efforts of the organization during a period of growth and been responsible for directing NHSP's affordable housing development efforts.

Don Hartman, Construction Manager – Don has been with NHSP for over two years and has been directly responsible for the construction of 11 new homes in the Eastlake and Garfield neighborhoods. He was previously the construction manager for the NHS of Baltimore. He has twenty-five years of experience in construction, including three years constructing single-family homes in Japan. He will be responsible for obtaining building clearances and permits, bidding out construction contracts, recommending contractors, and monitoring and approving the contractor's work.

NHSP hires general contractors for its home construction. Don or his assistant will perform the construction monitoring. The construction site will be visited daily and notations will be recorded in a history sheet.

Resumes are attached as Exhibit 4.

Financial Strategy

NHSP will finance the construction of the units. NHSP celebrated its twenty-fifth anniversary in 2000. This is a testament to the longevity and stability of the organization. The most recent financial audit for the fiscal year ended September 30, 2000 shows NHSP with total assets of \$11,630,675 (Exhibit 5). NHSP has two revolving loan funds that are used for the purpose of financing its own construction projects and mortgage financing in exceptional cases. These two loan funds have assets valued at \$1.9 million.

To maximize its financing capacity, NHSP has access to the secondary market through Neighborhood Housing Services of America (NHSa). This allows NHSP to sell loans and replenish its revolving loan funds. Special mortgage programs are often table funded using a \$1,000,000 warehouse line of credit from Firststar Metropolitan Bank. If necessary, access to additional low-interest construction financing may also be possible through NSHA, the FannieMae Foundation, and Neighborhood Reinvestment Corporation.

Each unit will be charged for financing at a current rate of 7% annually; this is substantially below market for this type of financing. The interest earned on each construction loan is deposited back into the revolving loan fund, thereby increasing NHSP's capacity to finance affordable home development. Each unit will also be charged a 9% developer fee with 8% going to NHSP and 1% to the CLTT. A proforma is attached as Exhibit 6.

The CLTT has begun cultivating a relationship with Washington Mutual Bank (WaMu). WaMu has a special land trust mortgage product, virtually ensuring financing for qualified homebuyers.

Selection Criteria

The affordable housing crisis is evident; homeownership opportunities for low to moderate-income families are limited. Through its outreach and education efforts, the CLTT will work to identify and qualify families interested in purchasing these homes. CLTT homebuyers are purchasing more than a home – they're buying into a philosophy; therefore, we expect leasees to fully support and participate in land trust activities. Leasees are automatically members of the CLTT and may chose to run for a seat on the board. All homebuyers will have annual incomes at or below 80% of the area median (adjusted for family size).

In addition to their development services, NHSP has also agreed to make the services of their HomeOwnership Center available to perspective homebuyers. The Center offers homebuyers regularly scheduled education classes in English, Spanish, and Bosnian. The twelve-hour class can be completed over two consecutive Saturdays. NHSP's HomeOwnership Center is one of a very few homebuyer education programs in the Valley participating in the American Homebuyer Education and Counseling Institute's (AHECI) program and meets AHECI's draft standards.

Beyond the formal classroom education, each homebuyer is provided with individual counseling on credit and budget issues. NHSP invests an average of twenty hours for each client that becomes a homeowner. Post-purchase delinquency counseling is also offered to any homebuyer completing the pre-purchase class.

Readiness to Proceed

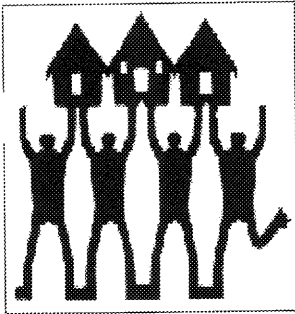
A schedule of performance and a proposed Letter of Agreement is attached as Exhibit 7. The schedule is premised on the ability to obtain all building approvals/clearances within three months. The construction period for each unit is four months with an additional two months added to close on the sale of the unit.

NHSP maintains an active, qualified contractors bid list. Insurance and license information is updated regularly. NHSP solicits new contractors by advertising the project in the Phoenix Business Journal and through mailings to minority and female contractors. The general contractors are invited to bid projects on a rotation basis. NHSP will use a sealed bid process requiring all contractors to complete all line items on the bid form including overhead and profit. The CLTT will select a contractor based on the lowest bid, unless the bid price is otherwise deemed unrealistic with regard to cost.

NHSP proposes to bid the project as a "one lump sum" project with the contractor who wins the bid constructing both houses. This process has proven successful in helping to control costs on past NHSP contracts.

INDEX OF EXHIBITS

EXHIBIT 1	Community Land Trust of Tempe Board Roster
EXHIBIT 2	Neighborhood Housing Services of Phoenix current development list
EXHIBIT 3	Proposed elevation and floor plan
EXHIBIT 4	Resumes Mike Patten, CLTT President Bill Was, CLTT Board Member Rita Carrillo, NHSP Executive Director Don Hartman, NSHP Construction Mgr.
EXHIBIT 5	NHSP audit
EXHIBIT 6	Proforma
EXHIBIT 7	Readiness to Proceed Schedule of performance Proposed Letter of Agreement
EXHIBIT 8	Evidence of Non-Profit Status Community Land Trust of Tempe NHSP



Community Land Trust of Tempe

Michael Patten, President

**Richard Erdmann, Vice-
President**

**Pen E. Johnson,
Secretary/Treasurer**

Board of Directors:

**Fredericka Clarke
Luis Fernandez
Richard Gart
Spike Lawrence
Xavier Morales
Michael Patten
Bonnie Richardson
Charles D. Vester
William G. Was, Jr.
Elizabeth Wilson
Peggy Wright**

*To develop and
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**PO Box 5002
Tempe, AZ 85280
tel. 480 350 8948
fax 480 350 8579
www.tempe.gov**

BOARD OF DIRECTORS

Fredericka Clarke
Customer Service
Salt River Project
Other Affiliations:
None

Richard Erdmann
Volunteer Coordinator
East Valley Habitat for Humanity
Other Affiliations:
None

Luis Fernandez
Instructor
Justice Studies Dept., ASU
Other Affiliations:
NewTown CDC (Board Member)

Richard Gart
General Manager
NewPort Holdings
Other Affiliations:
None

Pen E. Johnson
Retired
Other Affiliations:
Nebco Hotel Inc. (Board Member)
Tempe CVB (Board Member)
AZ Hotel & Lodging Association
(Board Member)

Spike Lawrence
Partner
Lawrence & Geyser Development
Other Affiliations:
None

Xavier Morales
Assistant Director
AZ Prevention Resource Center
Other Affiliations:
The Planners Network
(Board Member)

Michael Patten
Partner
Roshka, Heyman and DeWulf
Other Affiliations:
Tempe Community Council (President)

Bonnie Richardson
Neighborhood Planning Manager
City of Tempe
Other Affiliations:
Caitlin Robb Foundation (Board Member)

Charles D. Vester
President
MarVest Financial
Other Affiliations:
None

William G. Was, Jr.
Principal
MCW Holdings, LLC
Other Affiliations:
Tempe Community Council (Board Member)

Elizabeth Wilson
Graduate Student
Environmental Planning (ASU)
Other Affiliations:
None

Peggy Wright
Realtor
Century 21 Arizona Foothills
Other Affiliations: None

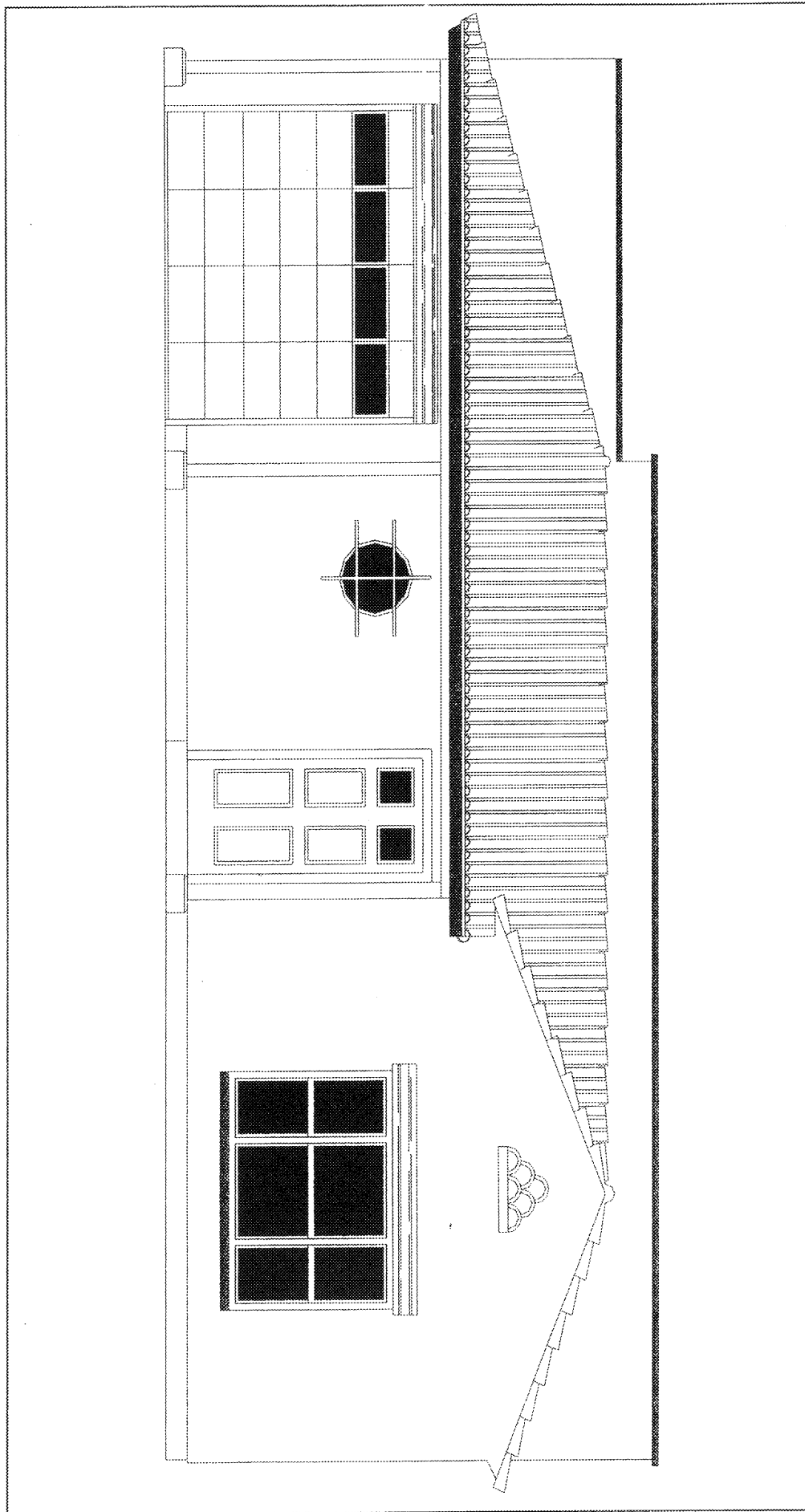
NHSP Property Report

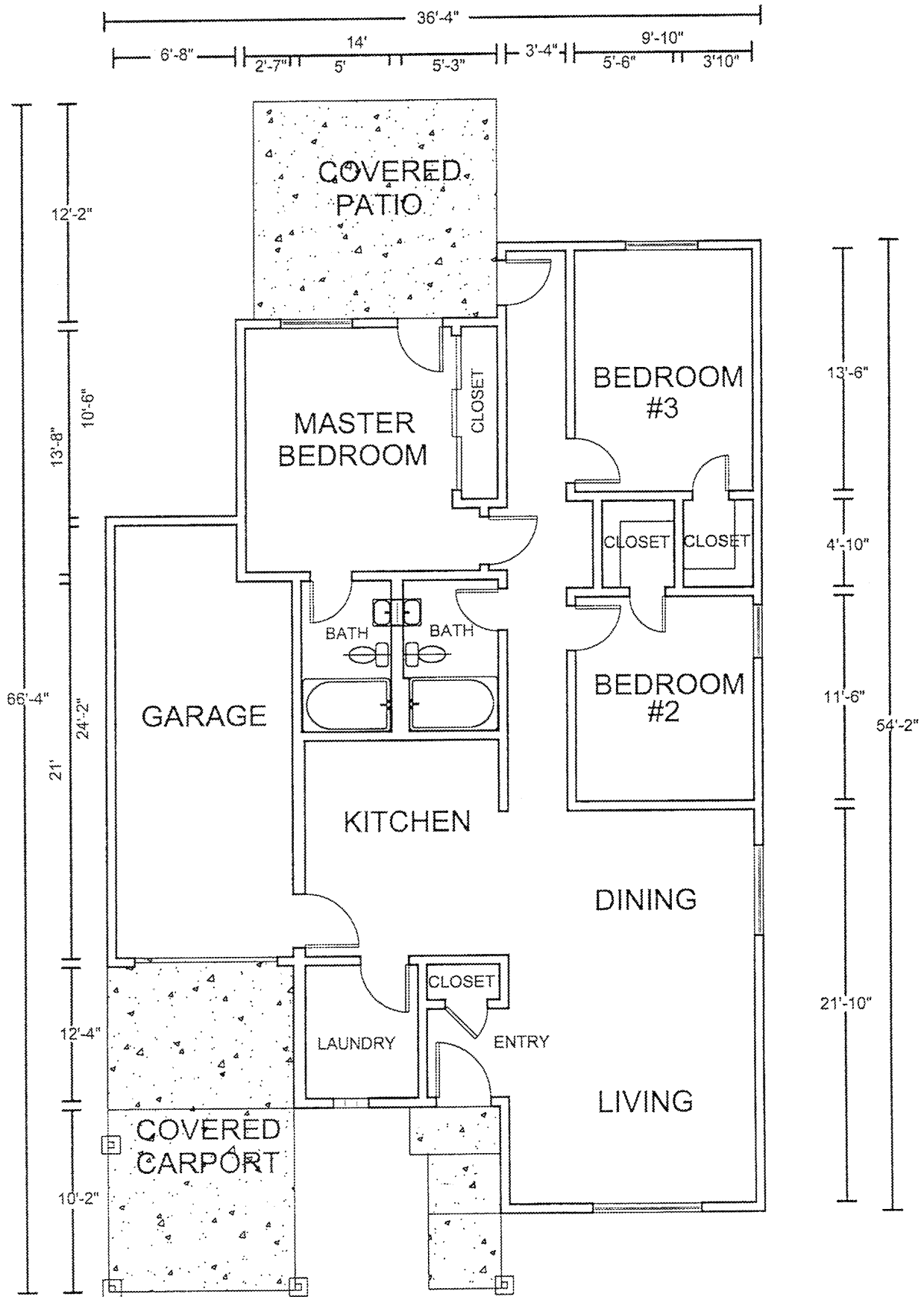
Friday, July 20, 2001

Address	Description	Status	Buyer	Close Date	Est. Completion
Certified					
1121 E. McKinley	new infill	purchased/ clear to build? Tracy looking for a buyer	vacant lot		
1125 E. Pierce	new infill	43%	Downey, Gwen		9/28/2001
1131 E. Pierce	new infill	35%	Hurtado (4BR)		10/4/2001
1137 E. Moreland		property to be sold to neighbor for COP reconstruct	vacant lot		5/15/2001
1137 E. Taylor	new infill	100% looking for buyer	vacant house		5/15/2001
1141 E. Moreland	new infill	20%	Gomez, Mario		10/11/2001
1153 E. McKinley	new infill	100%	Avila (block)	3/1/2001	
1153 E. Pierce	new infill	awaiting homeowner qualifications	vacant lot		
1229 E. McKinley	new infill	awaiting purchase of lot	vacant lot		
1330 E. Fillmore	new infill	awaiting clearance to build	vacant lot		
1415 E. Taylor		short lot / FOR SALE but we may build	vacant lot		
1433 E. Garfield	new infill	93%	Dorsey, Regina		7/25/2001
512 N. 13th St	demo/infill	100%	Perez, Luz	3/9/2001	
721 E. McKinley	new infill	80%	Carreras, Pete		8/10/2001
909 E. Fillmore	new infill	93% drive 18th, landscape 20th, cc 25th, final 27th/ulitlie	Santiago, Marcina		7/25/2001
HOME Rehab					
1110 N. 11th St	acq, Rehab	looking for a buyer	vacant house		

A report generated by the Neighborhood Housing Services Program

Address	Description	Status	Buyer	Close Date	Est Completion
1217 E. McKinley	acq. Rehab	100%	Alvarez Tonya	5/4/2001	
1429 E. Brill	acq. Rehab	100%	Trujillo, Leeper	6/6/2001	
1530 E. McKinley	acq. Rehab	lead work 85%, GC contract signed	vacant house		
RENTAL					
3101 W. Almeria	new infill	Contract signed/ G&D plans 24th/permit app next	vacant lot		
3105 W. Almeria	new infill	Contract signed/ G&D plans 24th/permit app next	vacant lot		
3302 W. Granada	new infill	Contract signed/ G&D plans 24th/permit app next	vacant lot		
3344 W. Granada	new infill	Contract signed/ G&D plans 24th/permit app next	vacant lot		
3347 W. Palm	new infill	Contract signed/ G&D plans 24th/permit app next	vacant lot		
RENTAL					
1529 E. Virginia	single family	Rented-No plan of action			





3-BEDROOM FLOOR PLAN

MICHAEL W. PATTEN

ROSHKA HEYMAN & DEWULF, PLC
Two Arizona Center
400 North 5th Street, Suite 1000
Phoenix, Arizona 85004-3906
602/256-6100
mpatten@rhd-law.com

Michael W. Patten practices in the area of telecommunications, public utilities and environmental law and has extensive experience in general litigation and issues concerning access of the press. Mr. Patten appears regularly before the Arizona Corporation Commission on public utilities and telecommunications matters and has participated in industry and Arizona Corporation Commission working groups in the development of regulatory schemes for competitive telecommunications services and competitive electric power services in Arizona.

EDUCATION

Harvard Law School (J.D. 1984)
Executive Editor, Harvard Environmental Law Review (1983)
Claremont McKenna College (B.A., Biology, *summa cum laude*, 1981)

PROFESSIONAL EXPERIENCE

Law Clerk to Hon. Charles L. Hardy
United States District Court for the District of Arizona
(1984-86)

COURT ADMISSIONS

United States Court of Appeals for the Ninth Circuit (1987)
United States District Court for the District of Arizona (1986)
Supreme Court of Arizona (1984)

PROFESSIONAL ASSOCIATIONS AND ACTIVITIES

State Bar of Arizona
Maricopa County Bar Association
American Bar Association

PUBLICATIONS

Author, "Rulemaking and Regulatory Agencies in Arizona," Arizona Environmental Law Manual, State Bar of Arizona (1995)
Co-author and co-editor, Arizona Environmental Law Handbook, Government Institutes, Inc. (1993)
Co-author, "Tapping Officials' Secrets: The Door to Open Government in Arizona," Tapping Officials' Secrets, A State Government Compendium, Reporters Committee for Freedom of the Press (1997)
Author, "Liabilities of Underground Storage Tank Ownership or Operation," Environmental Management Review, Government Institutes, Inc. (4th Qtr. 1991)
Co-author and Co-editor, Arizona Environmental Law Update, M. Lee Smith Publishers (Monthly 1990-95)

REPORTED COURT DECISIONS

U.S. West Communications, Inc. v. Arizona Corp. Comm'n, 198 Ariz. 208, 8 P.3d 396, (Ct. App. 2000)
U.S. West Communications, Inc. v. Jennings, 46 F. Supp. 2d 1004 (D. Ariz. 1999)
AMCOR Investment Corp. v. Cox Arizona Publications, Inc., 158 Ariz. 566, 764 P.2d 327 (Ct. App. 1988) (upholding dismissal of a libel action against the Mesa Tribune).
Tucson Radiology v. Radiology, Ltd., 924 F.2d 1484 (9th Cir. 1991) (upholding summary judgment in favor of Radiology, Ltd. on several antitrust claims).

REPORTED AGENCY DECISIONS

In Re Qwest Communications Corp., 2000 WL 1283702 (Ariz. Corp. Comm'n 2000)
In Re Competition in the Provision of Electric Services, 1998 WL 417414, 186 PUR 4th 206 (Ariz. Corp. Comm'n 1998)
In Re Mediating and Arbitration Requests, 1997 WL 873632 (Ariz. Corp. Comm'n 1997)
In Re Arizona Universal Service Fund, 1997 WL 873618 (Ariz. Corp. Comm'n 1997); 1997 WL 873620 (Ariz. Corp. Comm'n 1997)
In Re American Communications Services, Inc., 1997 WL 151166 (Ariz. Corp. Comm'n 1997)
In Re TCG Phoenix, 1996 WL 787602 (Ariz. Corp. Comm'n 1996)
In Re Rules for Telecommunications Interconnection and Unbundling, 1996 WL 787939 (Ariz. Corp. Comm'n 1996)
In Re Proposed Rulemaking Regarding Competitive Telecommunications Services, 1996 WL 551471 (Ariz. Corp. Comm'n 1996)

SEMINARS

Telecommunications in the Southwest, Law Seminars International (January 2001)
Telecommunications in the Southwest, Law Seminars International (January 2000)
RCRA Compliance, Arizona State University Center for Environmental Studies (1995-96)
Arizona and the Environment: Where Does DEQ Go From Here?, State Bar of Arizona's Environmental and Natural Resources Law Section (December 9, 1994)
Avoiding Environmental Liability in Arizona, National Business Institute (May 26, 1994)
Fundamentals of Arizona Environmental Law Compliance, Government Institutes (November 18, 1993)
Hazardous Waste in Arizona, National Business Institute (October 28, 1992)
Underground Storage Tanks, Government Institutes (February 14, 1991)

COMMUNITY SERVICE

President, Tempe Community Council
President, Community Land Trust of Tempe
Member, City of Tempe Transportation Commission
Former chairman, City of Tempe Planning and Zoning Commission
Member, Tempe Leadership

William G. Was, Jr.

Principal

MCW Holdings, Inc.

P. O. Box 3065

Tempe, AZ 85280-3065

A longtime Arizona resident, Mr. Was has long been an active player in the Arizona financial and real estate markets. A former banker with over twenty years of commercial real estate finance, construction and mortgage lending experience, Mr. Was served as Executive Vice-President of First Interstate Bank of Arizona managing the Real Estate Finance and Bank Properties Group. Prior to entering banking, he was employed by First American Title Insurance Company as both an escrow and title officer. Mr. Was is a graduate of Arizona State University as well as the Mortgage Bankers Association School of Mortgage Banking and the Pacific Coast School of Banking.

In 1990, Mr. Was formed Western Advisory Services, Co. a consulting company involved primarily in real estate finance and development. In 1994 he formed MCW Holdings, Inc. with his current partners. Mr. Was has been an investor/developer in numerous Arizona based ventures including Pavoreal at 68th St & Camelback Rd. in Scottsdale, Sky Top and Ballantrae, residential projects, at Troon, the East Nine at Scottsdale Country Club and Alameda Estates in North Scottsdale.

Mr. Was moved to Arizona in 1962 and has been married to his wife Joan for twenty six years. They have two children. Casey is a senior at Arizona State University and plays for the ASU varsity tennis team where he is currently ranked 2nd nationally in doubles. Andy, a senior in high school, hopes to go to medical school after attending Arizona State University.

RITA CARRILLO
6030 East Mariposa Street
Scottsdale, AZ 85251
(602) 994-8687 (Home)
(602) 258-1659 (Work)

WORK EXPERIENCE

1993 To Present

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.

Executive Director

Hired to reorganize and redevelop a non-profit affordable housing organization. Develop, manage, and market housing construction and rehabilitation and mortgage financing programs targeting low- to moderate-income families. Responsibilities include: management of mortgage loan portfolio and policy and resource development.

1990 to 1993

JAMIESON AND GUTIERREZ

Business Consultant

Managed and directed firm's involvement in a major industrial/ residential project in Northern Mexico. Provided public affairs/ business strategies advice to a variety of private sector clients doing business in Arizona and Mexico.

1988 to 1990

CITY OF PHOENIX

Executive Assistant to Mayor Terry Goddard

Liaison to community and city staff on transportation and planning and zoning issues. Advised mayor regarding issues and city projects involving surface transportation, public transit, airport programs, and city planning and zoning cases.

1987 to 1988

BABBIT FOR PRESIDENT COMMITTEE

Iowa Press Secretary

Developed and maintained local and national press contacts. Prepared news releases and newsletters. Scheduled news conference and interviews for candidate, supporters and staff. Planned and advanced major media events.

Community and Civic Affiliations

- Board of Directors, **Bank One, Arizona**
- Board of Directors, **Seedco Foundation**, New York, New York
- Board Member, **Phoenix Aviation Advisory Board**
- President, Board of Directors, **Housing Opportunity Center**
- President, **Planned Parenthood of Central and Northern Arizona**, 1994-1995
- **KAET (Channel 8)** Advisory Board
- **Arizona State University** Minority Advisory Council
- **Heard Museum**, Board of Trustees, 1991-1994
- Chairman, **Phoenix Chamber of Commerce** North American Free Trade Agreement Task Force, 1990-1992
- Board of Directors, **Housing Assistance Council**, Washington D.C., 1987-1992
- **Junior League of Phoenix**, 1982-1987
- **Charter 100**, Arizona Chapter, 1983-1987
- Founding Member, **MUJER**, Hispanic Women's Organization
- Founding Member, **Hispanic Women's Conference** Board
- Founder, **Women of Achievement** Awards Program

Donald Lee Hartman
1916 E. Laguna Drive
Tempe, AZ 85282

SUMMARY OF QUALIFICATIONS

- Twenty-six years of construction management with hands on experience
- Thorough knowledge of new home construction (panelized and stick-built), historic restoration, remodeling and traditional Japanese homes
- Proficient in blueprint reading, estimating, and material take-offs
- Computer literate – WINDOWS Me 2000, Microsoft Office 2000, and CAD
- Skilled craftsman (rough and finish carpenter) with experience in drywall, roofing, siding, ceramic tile, concrete, and masonry

PROFESSIONAL EXPERIENCE

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.
Phoenix, Arizona

1999 – Present

Construction and Rehabilitation Manager

Neighborhood Housing Services of Phoenix (NHS Phoenix) is a nonprofit community development organization dedicated to the revitalization of Phoenix neighborhoods by providing a full range of services and programs to encourage, create and support home ownership.

Responsible for operations of the construction and rehabilitation department:

- Generate and implement “standard specs” for all housing and rehab projects
- Monitor and track construction and rehab, historic review, and warranty issues
- Design computer-generated floor plans for development and rehab projects
- Supervise estimates and construction
- Coordinate and provide consulting services to other nonprofits

NEIGHBORHOOD HOUSING SERVICES OF BALTIMORE, INC.
Baltimore, Maryland

1995 – 1998

Rehabilitation Manager

Neighborhood Housing Services of Baltimore is a nonprofit community development organization specializing in promoting homeownership and rehab assistance in targeted neighborhoods in Baltimore metropolitan area.

Responsible for operations of the rehabilitation department of NHS:

- Generated and implemented “standardized specs” for all developed housing rehab projects
- Monitored and tracked rehab cases, historic trust review packages and warranty complaints
- Developed and implemented NHS protocol for lead-based paint, property management procedures, and homeowner education/training
- Designed computer-generated floor plans for development and rehab projects
- Supervised rehab estimators
- Coordinated and provided rehab and consulting services to other nonprofits

Accomplishments

Reorganized this department to allow the organization to add twelve neighborhoods to its service area without additional rehabilitation staff by extensive modifications of the standard operating systems and complete computerization of the department including hardware and software assessment, purchase, installation, and implementation.

KOZAI CONTRUCTION COMPANY
SANKI LIVING GROUP
Takamatsu, Japan

6/92 – 12/95

Project Manager/American Home Builder

Complete responsibility for the construction phase of panelized American homes:

- Served as sole liaison between American panelization company and Japanese construction company
- Participated in pre-construction planning and scheduling meetings with Japanese management
- Evaluated American and Japanese building materials and developed installations method and priorities
- Supervised American labor force, scheduled Japanese sub-contractors, and established and maintained communication lines between the two work forces
- Worked as lead carpenter in framing through completion of projects
- Acted as a design consultant for Japanese architects regarding custom homes
- Trained Japanese carpenters in 2x4 construction methods
- Attended sales promotions and participated in ad campaigns

Accomplishments

Successfully completed ten custom American homes, one warehouse, and one marina complex

EDUCATION

Maryland Institute College of Art (1973)
Dean's List 1972

Calvert Hall College, Baltimore Maryland (1970)
Major-General, Graduated with Honors

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARY

Consolidated Financial Statements
September 30, 2000

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY
FOR THE YEAR ENDED SEPTEMBER 30, 2000

C O N T E N T S

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STERN & WEISTART, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
10625 NORTH 25TH AVENUE, SUITE 101
PHOENIX, ARIZONA 85029-4758

PHONE: (602) 674-8226 FAX: (602) 674-8248

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Neighborhood Housing Services of Phoenix, Inc.

We have audited the accompanying consolidated statement of financial position of Neighborhood Housing Services of Phoenix, Inc. (a non-profit organization) and Subsidiary as of September 30, 2000, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted the audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the subsidiary, NHSP, L.L.C., were not audited in accordance with *Government Auditing Standards*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Housing Services of Phoenix, Inc. and Subsidiary at September 30, 2000, and the changes in their net assets and their cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2001 on our consideration of Neighborhood Housing Services of Phoenix, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

January 16, 2001

Stern & Weistart, PLLC

NHSP, L.L.C.

dba Ventana

Palms Apartments

Eliminations

Total

\$ 50,076	\$ -	\$ 1,474,697
-	-	268,175
3,734	-	170,724
-	-	490,836
19,463	-	61,641
952,101	-	952,101
319,756	-	319,756
-	-	1,508,728
6,481,819	(147,433)	6,384,017
-	(261,068)	-
-----	-----	-----
\$7,826,949	\$(408,501)	\$11,630,675
=====	=====	=====

\$ 307,441	\$ -	\$ 338,975
-	-	6,669
-	-	142,406
30,628	-	48,367
7,365,000	-	8,430,258
-----	-----	-----
7,703,069	-	8,966,675
-----	-----	-----
123,880	(408,501)	527,718
-	-	1,208,970
-	-	927,312
-----	-----	-----
123,880	(408,501)	2,664,000
-----	-----	-----
\$7,826,949	\$(408,501)	\$11,630,675
=====	=====	=====

NHSP, L.L.C.
dba Ventana

<u>Palms Apartments</u>	<u>Eliminations</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ -	\$ -	\$ 708,055	\$ 276,095	\$ 236,960	\$195,000
-	-	319,923	162,723	157,200	-
-	-	270,177	242,827	27,350	-
-	-	1,298,155	681,645	421,510	195,000
-	(150,000)	138,803	110,778	28,025	-
886,264	-	886,264	886,264	-	-
44,147	-	192,978	150,324	42,654	-
-	-	1,259	1,259	-	-
930,411	(150,000)	1,219,304	1,148,625	70,679	-
-	-	-	177,352	(177,352)	-
930,411	(150,000)	2,517,459	2,007,622	314,837	195,000
-	-	91,203	1,065,032	-	-
-	-	306,343	91,203	-	-
-	-	152,790	306,343	-	-
1,067,599	(2,567)	1,065,032	152,790	-	-
1,067,599	(2,567)	1,615,368	1,615,368	-	-
-	-	206,335	206,335	-	-
-	-	22,169	22,169	-	-
-	-	228,504	228,504	-	-
1,067,599	(2,567)	1,843,872	1,843,872	-	-
(137,188)	(147,433)	673,587	163,750	314,837	195,000
-	-	-	-	-	-
\$ (137,188)	\$ (147,433)	\$ 673,587	\$ 163,750	\$ 314,837	\$195,000
\$ -	\$ -	\$1,990,413	\$ 328,493	\$ 929,608	\$732,312
261,068	(261,068)	-	-	-	-
\$ 123,880	\$ (408,501)	\$2,664,000	\$ 492,243	\$1,244,445	\$927,312

SUPPORTING SERVICES

<u>Management and General</u>	<u>Resource Development</u>	<u>Total</u>	<u>Total</u>
\$124,560	\$15,163	\$139,723	\$ 443,533
17,624	1,191	18,815	61,903
-----	-----	-----	-----
142,184	16,354	158,538	505,436
12,016	480	12,496	86,443
-	-	-	19,095
2,887	350	3,237	15,795
12,807	1,552	14,359	39,289
2,399	290	2,689	16,608
-	-	-	50,890
3,129	379	3,508	101,060
2,342	42	2,384	20,070
6,018	612	6,630	25,232
4,418	535	4,953	39,010
3,957	480	4,437	17,875
-	-	-	187,318
5,150	-	5,150	14,997
706	86	792	2,981
-	-	-	399
-	-	-	442,289
-	-	-	71,489
-	-	-	33,220
-	-	-	18,083
-----	-----	-----	-----
198,013	21,160	219,173	1,707,579
8,322	1,009	9,331	136,293
-----	-----	-----	-----
\$206,335	\$22,169	\$228,504	\$1,843,872
=====	=====	=====	=====

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

 Consolidated Statement of Cash Flows
 For the year ended September 30, 2000

Cash flows from operating activities:	
Excess of support and revenue over expenses	\$ 673,587
Adjustments to reconcile excess of support and revenue over expenses to net cash provided by operating activities:	
Contributions-in-kind	(270,177)
Gain on disposal of property and equipment	(1,259)
Depreciation/amortization	145,929
Contributions restricted for long term purposes	(195,000)
Interest added to note payable	23,389
Increase in loans receivable	(734,441)
Increase in governmental receivables	(226,046)
Increase in other receivables	(148,361)
Increase in property held for resale	(98,821)
Increase in prepaid expenses and deposits	(34,473)
Increase in accounts payable and accrued expenses	312,274
Increase in accrued compensated absences	455
Increase in advances on contract	51,073
Increase in loan impounds and client deposits	35,438
Net cash used by operating activities	(466,433)
Cash flows from investing activities:	
Purchase of property and equipment	(26,518)
Return of investment in multifamily housing	13,237
Proceeds from sale of equipment	1,445
Net cash used by investing activities	(11,836)
Cash flows from financing activities:	
Contributions restricted for long-term purposes	195,000
Proceeds from notes payable	627,000
Borrowings under line of credit	1,286,713
Repayments under line of credit	(903,019)
Transfer to trustee	(273,241)
Net cash provided by financing activities	932,453
Net increase in cash	454,184
Cash and cash equivalents at beginning of year	1,020,513
Cash and cash equivalents at end of year	\$1,474,697

The accompanying notes are an integral part of this statement.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2000

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. Neighborhood Housing Services of Phoenix, Inc. and its wholly owned subsidiary, NHSP, L.L.C. have adopted the provisions of Statement of American Institute of Certified Public Accountants Position 94-3, "Reporting for Related Entities by Not-for-Profit Organizations" which requires consolidated financial statements for certain related entities.

All significant transactions and balances between the Organization and its subsidiary have been eliminated.

Financial statements presentation follows the recommendations of the Financial Accounting Standards Board in its Statements of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted assets, and permanently restricted net assets.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to Neighborhood Housing Services of Phoenix, Inc., the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been recorded and reported by fund group. The assets, liabilities, and net assets of the Organization are reported in the following fund groups:

- . Operating Funds represent resources that are available for the general operations and certain lending activities of the Organization.
- . Homeowner Development and NRC Loan Funds arise from contributions and grants from a variety of sources (including interest and other revenues earned thereon) which may be used only in accordance with the purposes established by the donors and grantors.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of any donor restrictions. Assets contributed with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long those contributed assets must be maintained, the Organization records expirations of donor restrictions when the assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NATURE OF ACTIVITIES

Neighborhood Housing Services of Phoenix, Inc. and its subsidiary NHSP, L.L.C. are dedicated to the revitalization of Phoenix neighborhoods by providing a full range of services and programs to encourage, create and support homeownership.

The Organization provides services in four major program areas. These are:

Homebuyer Education

All borrowers are required to attend ten hours of group education on the process of purchasing a home and the responsibilities of homeownership. Clients wanting to proceed toward homeownership are also provided individual counseling on budget and credit issues as needed. Classes are taught in English, Spanish, and sign language. Buyers needing longer term counseling are enrolled in a homebuyer's club.

Loan Services

The Organization is a licensed mortgage bank in the State of Arizona and an approved Fannie Mae seller/servicer and a HUD approved FHA correspondent and VA affiliate lender. It originates and services first and second mortgage loans and down payment/closing cost assistance grants and loans. The Organization develops and/or administers special mortgage programs that meet the credit needs of low and moderate income borrowers. Loan terms may vary from conventional interest-bearing and fully amortizing to fully forgivable loans which subsidize a home purchase.

Affordable Housing Development

The Organization develops affordable single family homes in neighborhoods targeted for revitalization efforts by its Board of Directors. These development programs include new construction on in-fill lots and acquisition, rehabilitation and resale of single family homes. The majority of homes developed by the Organization are located in areas with depressed property values and are funded with governmental grants to subsidize the cost of development.

Rehabilitation standards exceed the minimum requirements of both the U.S. Department of Housing and Urban Development and the City of Phoenix. The rehabilitation standards seek to eliminate the need for major replacement or repair costs for homebuyers in the first five years of ownership.

Multi-Family Housing

Through its wholly-owned subsidiary, NHSP, L.L.C. dba Ventana Palms Apartments, the Organization provides multi-family housing to 160 tenants in Phoenix. The residents consist of 20% very-low-income and 40% low-income individuals.

OTHER SIGNIFICANT ACCOUNTING POLICIES ARE AS FOLLOWS:

Depreciation/Amortization

Depreciation is provided over the estimated useful lives of the assets on a straight-line basis. Amortization of leasehold improvements is provided over the lesser of the life of the assets or the term of the lease. Buildings are depreciated over 35 years and most equipment is depreciated over 4 to 7 years.

Donated Services and Merchandise

The Organization receives services from the volunteer board of trustees whose primary purpose is fund raising. No value for these services is recorded by the Organization. Donated professional services, if any, for which the Organization would normally pay, are recorded at standard fees charged by the professional.

Donated materials and property, are recorded at their estimated fair market value as of the date of donation.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization Policy

The Organization capitalizes the estimated fair value and the cost of property and equipment in excess of \$500.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less, if any, to be cash equivalents.

Allocations of Costs

The costs of providing programs and management have been summarized on a functional basis in these financial statements. Accordingly, costs have been allocated among the programs and management.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts or disclosures. Accordingly, actual results could differ from those estimates.

Advertising Costs

Advertising costs are expensed as incurred.

(2) CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2000, consist of the following:

Cash on hand	\$ 450
Cash in checking accounts	223,996
U. S. Treasury Secured Money Market Fund	1,250,251

	\$1,474,697
	=====

The Organization maintains a general checking account and five additional checking accounts for certain activities. Cash in general checking in excess of immediate needs is retained in the money market fund which is established as a sweep account. The money market fund is not insured by the Federal Deposit Insurance Corporation.

(3) GOVERNMENTAL RECEIVABLES

Governmental receivables at September 30, 2000 consist of the following:

Operating Funds:	
Due from City of Phoenix - CDBG grant	\$ 4,000
Due from Neighborhood Reinvestment Corporation	50,000
Homeowner Development Funds	
Due from City of Phoenix - reimbursement for CDBG client subsidies	153,500
Due from City of Phoenix - CDBG grant	60,675

	\$268,175
	=====

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2000

(4) PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Buildings	\$4,629,369
Furniture, fixtures, and equipment	85,901
Leasehold improvements	22,101

	4,737,371
Less: accumulated depreciation/amortization	(164,846)

	\$4,572,525
Land	1,811,492

	\$6,384,017
	=====

(5) LOANS RECEIVABLE

The Organization extends long-term mortgage loans under several programs to enable clients to purchase or rehabilitate homes. Interest rates on existing loans receivable range from 0% to 11%. The loans are generally secured by a deed of trust on the property. Some loans are forgivable if the client meets certain on-going requirements. Forgivable loans are included in the allowance for uncollectible loans. Loans receivable consist of the following at September 30, 2000:

	<u>Principal Balance</u>	<u>Allowance for Uncol- lectibles</u>	<u>Loans Receivable, net</u>
Amortizing Loans:			
Operating Funds	\$ 798,391	\$ 13,500	\$ 784,891
Homeowner Development Funds	569,998	5,000	564,998
NRC Loan Fund	104,904	2,000	102,904
	-----	-----	-----
	1,473,293	20,500	1,452,793
	-----	-----	-----
Deferred Loans (due on sale):			
Homeowner Development Funds	23,685	-	23,685
NRC Loan Fund	32,250	-	32,250
	-----	-----	-----
	55,935	-	55,935
	-----	-----	-----
Forgivable Loans:			
Homeowner Development Funds	204,006	204,006	-
	-----	-----	-----
	\$1,733,234	\$224,506	\$1,508,728
	=====	=====	=====

Of the amortizing loans outstanding at September 30, 2000, loans totaling \$655,544 were held for sale. Loans are sold at face value, generally without recourse.

Two amortizing loans totaling \$90,231 are required to be held as security for loans sold with recourse to Neighborhood Housing Services of America, Inc.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements September 30, 2000

(5) LOANS RECEIVABLE (continued)

As of September 30, 2000, loans were delinquent as follows:

	Number of Loans	Homeowner Development Funds	NRC Loan Fund	Total
Less than 30 days	3	\$ 47,241	\$1,512	\$ 48,753
30 to 60 days	-	-	-	-
60 to 90 days	-	-	-	-
Over 90 days	3	80,006	1,442	81,448
	6	\$127,247	\$2,954	\$130,201
	==	=====	=====	=====

(6) PROPERTY HELD FOR RESALE

The Organization purchases properties under various programs. At September 30, 2000, the Organization held two completed homes, one of which was rented, and five parcels of undeveloped land. Seven homes were under construction at September 30, 2000 and four additional parcels of land were in escrow for purchase. The land is intended for use in future projects and all property is carried at the lower of cost or market. Depreciation is not recorded on property held for resale.

(7) LOAN CONTINGENCIES

The Organization regularly sells certain loans receivable to Neighborhood Housing Services of America, Inc. (NHSA) for their carrying amount. All loans are sold at carrying value. Some loans are sold with recourse under a continuing arrangement with NHSA whereby the Organization may offer packages of up to one-half of its loan portfolio if certain criteria are met. Other loans are sold without recourse and are not subject to the loan reserve requirements. All such loans are serviced by the Organization in exchange for a .03125 percent monthly servicing fee on the outstanding balances of the loans.

Loans sold with recourse under this agreement which become delinquent must be substituted with a current loan or repurchased by the Organization. The principal balance of loans sold to NHSA and subject to recourse was \$311,197 at September 30, 2000. This amount is not included in loans receivable.

(8) NOTES PAYABLE

Notes payable at September 30, 2000 consist of the following:

\$1,000,000 line of credit payable in monthly installments of interest only at 6.55%. The line is due December 5, 2000 and is unsecured. \$ 517,556

\$250,000 face amount note payable to a bank in quarterly installments of interest only at 0% through July 6, 2003 and 2% thereafter. Interest is imputed at 6% in accordance with below market rate interest rules. The note is due July 6, 2013 and is unsecured. 148,742

\$1,000,000 face amount note payable to a U.S. Government Corporation on which \$452,000 has been drawn, payable in quarterly installments of interest only at 0% through May 26, 2002 and 2% thereafter. Interest is imputed at 8.5% in accordance with below market rate interest rules. The note is due June 30, 2010 and is unsecured. 247,163

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements September 30, 2000

(8) NOTES PAYABLE (continued)

\$175,000 face amount note payable to a foundation in quarterly installments of interest only at 2%. Interest is imputed at 8.5% in accordance with below market rate interest rules. The note is due January 5, 2005 and is unsecured.

\$ 151,797

3.90% - 5.90% note payable to the Industrial Development Authority of the City of Phoenix, Arizona in annual principal installments plus semiannual interest installments, with final payment due October 1, 2034.

5,515,000

8.0% note payable to the Industrial Development Authority of the City of Phoenix, Arizona in semiannual installments of interest only, with final payment due October 1, 2034.

1,850,000

\$8,430,258
=====

Maturities of notes payable are as follows:

Year Ending September 30,

2001

\$ 567,556

2002

55,000

2003

55,000

2004

60,000

2005

60,000

Thereafter

7,632,702

\$8,430,258
=====

The remaining amount available on the \$1,000,000 note payable may be drawn only upon the Organization meeting matching requirements of one dollar in non-federal funds for each dollar drawn on the loan.

The Industrial Development Authority of the City of Phoenix, Arizona issued tax-exempt Multifamily Housing Revenue Bonds (Ventana Palms Project) Series 1999 A and 1999 B, the proceeds of which were loaned to the Subsidiary.

The bonds are secured by a deed of trust, security agreement, assignment of rents and leases and a fixture filing on the Ventana Palms Project. The Series A bonds are guaranteed by MBIA Insurance Corporation, for which the Subsidiary pays an annual fee of .42% of the outstanding Series A bonds. The Series B bonds are subordinate to the Series A bonds and are not guaranteed.

The bonds were issued subject to numerous agreements and covenants including a Tax Regulatory Agreement, Trust Indenture and Loan Agreement under which the Subsidiary is obligated. The Subsidiary is required to maintain certain occupancy and financial ratios.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2000

(9) FUNDS HELD BY TRUSTEE

Funds held by trustee in connection with the Subsidiary's Industrial Development Authority debt consist of the following:

IDA Bond Series 1999 A and B Revenue Fund	\$ 3,282
IDA Bond 1999 A and B Debt Service Fund	254,158
IDA Bond Series A Debt Service Reserve Fund	424,285
IDA Bond Series B Debt Service Reserve Fund	142,346
IDA Bond Series 1999 A and B Replacement Reserve	52,858
IDA Bond Series 1999 A and B Tax and Insurance Fund	58,024
IDA Bond Series 1999 A and B Retained Earnings Fund	17,148

	\$952,101
	=====

The funds are invested as follows:

Wells Fargo 100% Treasury Money Market Fund	\$198,971
Investment agreements at 5.01% and 6.11% with Bayerische Landes Bank maturing October 1, 2034	753,130

	\$952,101
	=====

Investments are carried at market value, which approximates cost.

(10) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes:

Homeowner Development Funds:	
Providing down payment grants and loans to low and moderate income borrowing under various programs	\$1,140,780
Providing training and assistance for other Organizations in educating homebuyers throughout Arizona	\$ 68,190

	\$1,208,970
	=====

Revenue earned from the use of the above net assets is also temporarily restricted for eligible activities.

(11) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were restricted for the following purpose:

NRC Loan Fund:	
Financing for development projects or mortgage loans	\$927,312
	=====

Revenue earned from the use of these funds is unrestricted.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2000

(12) COMMITMENTS AND OTHER CONTINGENCIES

The Organization participates in numerous program grants and contracts. The Subsidiary is subject to numerous debt agreements. These grants, contracts, and agreements are subject to financial and compliance audits by the other parties, the purpose of which is to ensure compliance with the terms of the grant, contract or agreement. Any additional liability for reimbursement which may arise as a result of these audits is not believed to be material.

The Organization committed \$162,181 for the construction and/or rehabilitation of four homes and \$35,500 for the purchase of 3 lots at September 30, 2000.

(13) TRANSFERS - IN/OUT

During the year ended September 30, 2000, the Organization made the following interfund transfers as allowed under the grant agreements:

Transfers to Operating Fund from:

NRC Loan Fund for earnings of the NRC Fund	\$25,084
Homeowner Development Funds for loan servicing fees	6,840
Homeowner Development Funds for property management fees	600
Homeowner Development Funds for property development fees	36,000

	\$68,524
	=====

(14) LEASES

Operating Lease

The Organization leases office space and a copy machine under an operating leases. Minimum future lease payments are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Minimum Lease</u> <u>Payments</u>
2001	\$35,831
2002	36,514
2003	2,906

Total future minimum lease payments	\$75,251
	=====

(15) ADJUSTED NET WORTH - HUD TITLE II LOAN CORRESPONDENT

As a Title II Loan Correspondent, the Organization is required by the U.S. Department of Housing and Urban Development to maintain Adjusted Net Worth of \$50,000, as defined in Section 7-6 of the Consolidated Audit Guide for Audits of HUD Programs. The calculation of Adjusted Net Worth is as follows:

Unrestricted Net Assets per the Statement of Financial Position of Neighborhood Housing Services of Phoenix, Inc.	\$812,339
Less: Unacceptable Assets	-

Adjusted Net Worth for HUD Requirement Purposes	\$812,339
	=====
Adjusted Net Worth above Amount Required	\$762,339
	=====

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2000

(16) CASH FLOW DISCLOSURES

Interest paid by the Organization during the year ended September 30, 2000 was \$16,962.

Interest paid by the trustee on behalf of the Subsidiary during the year ended September 30, 2000 was \$159,556.

The Subsidiary had \$7,613,167 of non-cash investing and financing transactions related to the purchase of its property and the issuance of debt.

(17) ECONOMIC DEPENDENCY

The Organization receives most of its restricted public support and revenue either directly or indirectly from the City of Phoenix and Neighborhood Reinvestment Corporation. Loss of this revenue could have a materially adverse effect on the programs offered by the Organization.

(18) CONCENTRATION OF CREDIT RISK

The Organization extends loans to low and middle-income residents of a limited geographic area. Although loans are collateralized by the borrowers' property, there exists a risk that property values may fall below the loan values, creating a concentration of credit risk.

(19) INCOME TAXES

The Organization has received a determination letter from the Internal Revenue Service stating that, based upon the information submitted, it was exempt from income taxes. Continuance of such exemption is dependent upon the Organization's future operations being in compliance with the Internal Revenue Code. The Organization is not recognized as a private foundation by the Internal Revenue Service.

The Subsidiary is an entity disregarded for income tax purposes. Its financial activity is combined for tax purposes with the Organization.

(20) SUBSEQUENT EVENTS

On October 2, 2000, the assets and liabilities of NHSP, L.L.C. were transferred to Ventana Palms, Inc. Ventana Palms, Inc. is an Arizona corporation exempt from income taxes under Internal Revenue Service Code 501(c)(3).

SUPPLEMENTAL INFORMATION

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.

Schedule of Expenditures of Federal Awards
For the year ended September 30, 2000

<u>Federal Grantor/ Passed Through Grantor/Program Title Number</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Revenues</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>					
Passed through City of Phoenix: Community Development Block Grants					
	14.218	71203	\$450,778	\$ 244,789	\$ 244,789
	14.218	82400	65,000	30,073	30,073
	14.218	83557	25,000	7,284	7,284
	14.218	84060	50,000	9,816	9,816
	14.218	90251	20,000	18,000	18,000
Total U.S. Department of Housing and Urban Development				\$ 309,962	\$ 309,962
<u>Neighborhood Reinvestment Corporation</u>					
Capital Grant - non-expendable	NONE	NONE	\$927,312	\$ 195,000	\$ 927,312
FY00 Expendable Grant	NONE	NONE	126,625	126,625	126,625
HUD Counseling Grant	NONE	NONE	9,320	9,320	9,320
				135,945	135,945
Total Neighborhood Reinvestment Corporation				\$ 330,945	\$1,063,257
<u>Community Development Financial Institutions Fund</u>					
Loan	21.020 981CD000632		\$1,000,000	\$ -	\$ 452,000
Financial Assistance	21.020 981CD000632		100,000	100,000	100,000
Technical Assistance Grant	21.020 981CD000632		50,000	40,150	40,150
Total Community Development Financial Institutions Fund				140,150	592,150
				\$ 781,057	\$1,965,369

See accompanying notes to Schedule of Expenditures of Federal Awards

Neighborhood Housing Services of Phoenix, Inc.

Notes To Schedule of Expenditures of Federal Awards
September 30, 2000

(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards of Neighborhood Housing Services of Phoenix, Inc. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

(2) BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the Organization's financial statements.

Federal Award Revenues are accounted for in the Organization's financial statements as follows:

Reported as Governmental Grants revenue	\$ 708,055
Passed directly to recipients - not reported in financial statements	141,500
Non-federal funds included in financial statements	(100,000)
Reported as advances on contracts	31,502

	\$ 781,057
	=====

(3) EXPENDITURES

Expenditures include total of amounts loaned to the Organization, including amounts loaned in prior years.

SINGLE AUDIT REPORTS

STERN & WEISTART, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
10625 NORTH 25TH AVENUE, SUITE 101
PHOENIX, ARIZONA 85029-4758

PHONE: (602) 674-8226 FAX: (602) 674-8248

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Neighborhood Housing Services of Phoenix, Inc.

We have audited the consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc. and Subsidiary as of and for the year ended September 30, 2000, and have issued our report thereon dated January 16, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Subsidiary were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether Neighborhood Housing Services of Phoenix, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Neighborhood Housing Services of Phoenix, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Neighborhood Housing Services of Phoenix, Inc.'s ability to record, process, summarize, and report financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item B. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition to be a material weakness.

This report is intended solely for the information of the Board of Directors, management, others within the Organization and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stern & Weinstadt, PLLC

January 16, 2001

STERN & WEISTART, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
10625 NORTH 25TH AVENUE, SUITE 101
PHOENIX, ARIZONA 85029-4758

PHONE: (602) 674-8226 FAX: (602) 674-8248

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Board of Directors
Neighborhood Housing Services of Phoenix, Inc.

Compliance

We have audited the compliance of Neighborhood Housing Services of Phoenix, Inc. with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major Federal programs for the year ended September 30, 2000. Neighborhood Housing Services of Phoenix, Inc.'s major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Neighborhood Housing Services of Phoenix, Inc.'s management. Our responsibility is to express an opinion on Neighborhood Housing Services of Phoenix, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Neighborhood Housing Services of Phoenix, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Neighborhood Housing Services of Phoenix, Inc.'s compliance with those requirements.

In our opinion, Neighborhood Housing Services of Phoenix, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2000.

Internal Control Over Compliance

The management of Neighborhood Housing Services of Phoenix, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Neighborhood Housing Services of Phoenix, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Directors, management, others within the Organization and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

January 16, 2001

Stern & Wustart, PLLC

FINDINGS AND QUESTIONED COSTS

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.

Schedule of Findings and Questioned Costs
September 30, 2000

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc. and Subsidiary.
2. One reportable condition was disclosed during the audit of the financial statements and was considered to be a material weakness. The reportable condition is described in section B of this schedule.
3. No instances of noncompliance material to the financial statements of Neighborhood Housing Services of Phoenix, Inc. were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major Federal award programs.
5. The auditors' report on compliance for the major Federal award programs for Neighborhood Housing Services of Phoenix, Inc. expresses an unqualified opinion.
6. No audit findings relative to the major Federal award programs for Neighborhood Housing Services of Phoenix, Inc. are reported.
7. The programs tested as major programs included:

Name of Program

CFDA Number

Community Development Financial Institutions
Fund Grants, Loans and Technical Assistance

21.020

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Neighborhood Housing Services of Phoenix, Inc. was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

Reportable condition

During the year ended September 30, 2000, the Organization did not adhere to the level of internal control quality present in prior years. The Organization has experienced a great deal of growth over the past several years and it does not appear that the accounting department has kept pace with the growth. In addition, the Organization purchased an improved general ledger and accounting software package, which required significant implementation time. As a result, many accounting functions were not performed in a timely manner and certain review functions were not performed.

We noted the following deficiencies:

Bank accounts were not reconciled in a timely manner and, at times, were adjusted without locating the actual differences.

Checks received were not deposited to the bank in a timely manner.

Capital calls to loan investors and disbursements of loan payments were not made timely.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.

Schedule of Findings and Questioned Costs
September 30, 2000

B. Findings - Financial Statements Audit (continued)

Reconciliations of some clearing and other accounts were not performed.

Grant income and expenses were not reconciled with grant reports or with information generated by other departments.

Costs chargeable to a new contract were not charged to the contract until year end.

Impound accounts were not timely reconciled nor were impound payments timely adjusted.

Accounts receivable for some grants and other reimbursements were not recorded.

Monthly financial statements were not prepared timely for use by management.

We recommend the following:

The Organization should immediately obtain the outside assistance it needs to produce current reconciled financial statements. It is unlikely that the existing staff can complete this task without outside assistance.

We also recommend that the current staffing of the accounting department be reviewed to determine if the hours allocated to accounting functions are adequate. The accounting staff stated they do not feel they have the time for reviewing the work they perform. Review time is essential for the timely detection of errors. Consideration should also be given to assigning the processing of loan activity to an individual outside the accounting department. In addition, the accounting staff may require additional training in order to properly perform their functions.

We also recommend that the methods for communicating between the departments be improved. We noted instances where other departments had information related to grants and loans which was not provided to the accounting department to help ensure proper accounting. Additionally, the lack of current financial information creates difficulties for other staff members and management in the performance of their job functions. All staff need to realize the importance of communicating both accounting and non-accounting information.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.

Summary Schedule of Prior Audit Findings
September 30, 2000

There were no audit findings reported for the year ended September 30, 1999.

MANAGEMENT'S RESPONSE TO FINDINGS



NeighborWorks®
HomeOwnership Center

**CORRECTIVE ACTION PLAN
FOR THE
YEAR ENDED, SEPTEMBER 30, 2000**

Neighborhood Housing Services of Phoenix, Inc. (NHSP) acknowledges the existence of a backlog in the accounting department. As noted in the Schedule of Findings and Questioned Costs, NHSP has experienced tremendous growth in loan production and program complexity placing a strain on the accounting department. A number of unusual circumstances during fiscal year 2000 also contributed to the delays in timely completion of accounting functions. These include the down times experienced in changing accounting software, recovering from damage to the agency's information systems caused by the "Melissa" virus and the illness of a key staff person.

A corrective action plan has been developed and implemented to bring all accounting functions current and reduce the workload assigned to the accounting department. The plan will remove non-accounting responsibilities from the staff and develop streamlined work procedures to ensure the continued, timely completion of all general accounting functions. The elements of the plan include:

To address the immediate backlog of basic accounting tasks, a consultant has been hired on an hourly basis to assist in bringing current all general accounting work. The consultant has already developed streamlined systems that will reduce the required input time and facilitate the preparation of financial reports. Enhancements have been made monthly financial statements to provide more easily comprehensible information and financial ratios to the NHSP Board of Directors.

The following is the plan to address the longer term and continuing timely completion of accounting functions:

A consultant for LoanBase, loan-servicing software, has been scheduled to provide on-site training and program customizing services the week of March 5, 2001. This will eliminate reporting and input problems that have been experienced with use of the software, increase staff's proficiency and allow NHSP to maximize its use of LoanBase functions.

In a similar effort to streamline work procedures and maximize the efficiency of existing software, funds have been budgeted to provide on-site training and program customizing services for the MIP accounting software. The professional services budget for the organization also includes funds to allow the financial manager to seek professional accounting advice, as needed.

- 24 -

320 East McDowell, Suite 120
Phoenix, Arizona 85004-4515
6 0 2 • 2 5 8 • 1 6 5 9
F a x 6 0 2 • 2 5 8 • 1 6 6 6



The responsibility for input and maintenance of LoanBase, loan-servicing software, will be transferred to the Loan Servicing Department in May 2001. A recent time study revealed that the accounting assistant was spending 60% of her time, processing borrower transactions in LoanBase. The addition of a full-time loan-processing assistant to the loan services department will make possible the transfer of loan servicing. The timing of the transfer is scheduled to allow for completion of the work by the LoanBase consultant, hiring of the loan processing assistant and time for cross training. This will significantly increase amount of time the accounting assistant can spend on general accounting functions.

To address communication between departments, an in-house staff training session will be held on February 23, 2001 to inform the other agency departments of the data and information needs of the accounting department and to develop procedures for improving the flow of pertinent information between departments.

Lastly, an on-going assessment of the accounting workload will be conducted to determine if additional hourly accounting assistance is required on a regularly scheduled basis.

NHSP believes the deficiencies noted in the audit letter in large part reflect the impact of the growth the organization has experienced in recent years. They were exacerbated by the unusual circumstances mentioned in the first section of this plan. Previous to the FY 2000 audit, under current management, NHSP had completed six annual audits with no reportable conditions. The NHSP staff and Board of Directors are committed to maintaining the organization's financial health and setting high performance standards for the organization.

If there are any further questions or concerns, please contact Ken Kirkland, Financial Manager, or me at 602/258-1659.

A handwritten signature in cursive script, reading "Rita Carrillo".

Rita Carrillo
President

CONSTRUCTION COST WORKSHEET

Date: 7/27/01

Property

Address: ? Tempe Lot

Construction Costs

Cost to NHSP

* Subject to change as per bid

*	Base price	\$72,000.00	
*	Covered patio (option)	\$1,700.00	
	Additional Parking Pad (option)	n/a	
*	Master Bdrm Door (option)	n/a	\$ 125.00
*	Master Cool/Evaporative Cooler (option)	n/a	\$ 2,250.00
*	Site Prep/lot grading	\$2,500.00	
	Front Fence (option)	n/a	
	Contingency @ 10%	<u>\$7,200.00</u>	
	Total Construction Costs	\$83,400.00	

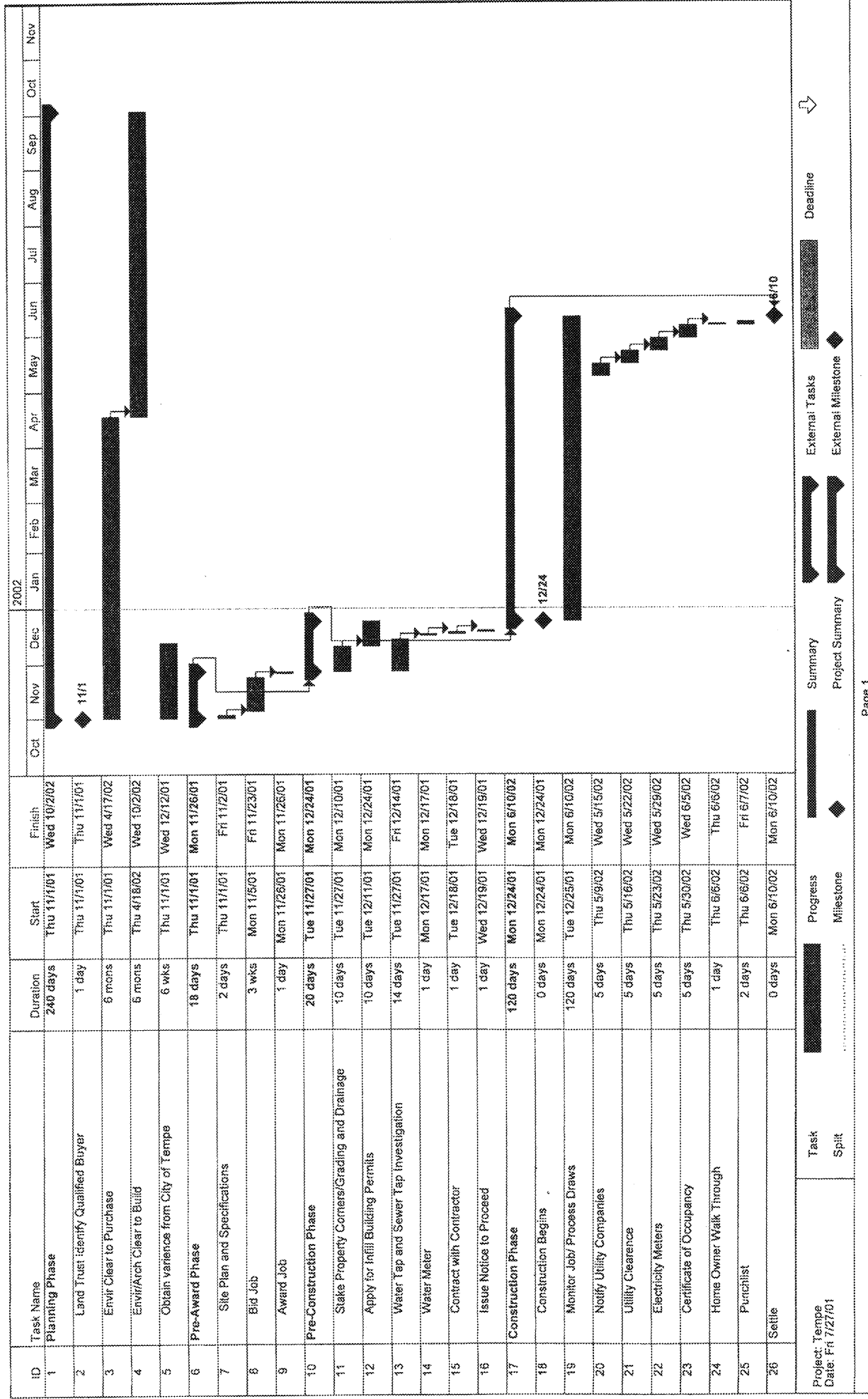
Soft Costs/Site Preparation

	Enviro./Archeo/Demo	unknown	
	Property Insurance - PD	\$500.00	
	Security (construction fencing)	included in bid	
	Variance plat plans	included	
	Bid Plans/\$15ea- 1 set per contractor	\$75.00	
	Permits/Variance -	fees waived	
	Construction/Drawings	included	
*	Lot Staking/G & D plans	\$1,500.00	
	ADA Ramps	n/a	
	Permit - Block Wall	fees waived	
*	Utilities - New water meter	\$115.00	
	Appliances - gas range/ref.	\$1,000.00	
	Xeriscapes - Landscaping/front	included in bid	
	Landscaping/ rear	unknown	
	Development Fee (9% total const. cost)	\$7,506.00	
*	Block Wall/Fence	included in bid	
	Curb Cuts/approach/apron	included in bid	
	R.E. Broker Fee/Marketing	n/a	

TOTAL

\$94,096.00

Don /F/Shared/Tempe Lot



**Neighborhood Housing Services of Phoenix
and
Community Land Trust of Tempe**

Letter of Agreement

This letter of agreement is made and entered into this _____ day of _____, 2001 between Neighborhood Housing Services of Phoenix (herein NHSP) and the Community Land Trust of Tempe (herein CLTT) and expires on _____ day of _____, 2002.

Each party represents that it has the requisite corporate, proprietorship, or other authority necessary to enter into this agreement. Each party represents compliance with the terms and conditions of the agreement and will not violate any provisions of each party's articles of incorporation, by-laws, and any instrument relating to the conduct of its business, or any other agreements to which it may be a party.

This letter of understanding is intended to set forth the entire understanding between the parties and supersedes all prior written and oral agreements relating to this project.

CLTT represents and agrees to the following:

- That its Board of Directors has authorized CLTT to enter into an agreement with NHSP to provide affordable housing development services and financing for the construction of up to two homes in the Jen Tilly Terrace Neighborhood.
- That CLTT is the respondent to the City of Tempe request for proposals (No. 2001.02) and the responsible party in any contract signed with the City of Tempe.
- That its Board of Directors fully understand that the CLTT will assume full responsibility for payment of the development fees to NHSP and repayment of the construction loans made by NHSP for this project and that any legal fees associated with the collection of funds as a result of default will be borne by CLTT.
- That the promissory note will be secured by the property and signed by the CLTT Board of Directors.
- That CLTT will be responsible for marketing the home and identifying potential buyers.
- That CLTT will cooperate with NHSP to obtain required permits and variances needed to develop said properties.

NHSP represents and agrees to the following:

- That it will provide construction financing for the project upon receiving copies of a signed purchase contract and a pre-qualification letter from an approved land trust lender.
- That NHSP's developer fee will be 8% of the total project cost.
- That the term of the loans will be at 7% interest, with no fees for up to 180 days with a possible 60 day extension.

- That the maximum loan amount on any one single-family housing unit will be \$100,000.
- That it will provide development services for the construction of the homes. The services will include: preparation of site plans and work specifications, preparation of cost estimates, bidding of project, bid analysis and recommendations, acquisition of necessary development permits and variances, issuance of notice to proceed, construction monitoring, processing of payment draws, final walk-throughs, punch list follow-up and close out.

This agreement may not be amended or altered except by written consent of both parties. Both CLTT and NHSP conduct business in the State of Arizona and the laws of the State of Arizona shall apply to this agreement and its interpretation. Neither CLTT or NHSP may assign this agreement without prior written consent of the other party.

IN WITNESS THEREOF, the parties hereto have affixed or cause to be affixed their respective signatures as of the date first written above.

Neighborhood Housing Services of Phoenix, Inc.

BY: _____

Title: _____

Community Land Trust of Tempe

BY: _____

Title: _____

EXPEDITED
AZ CORP COMMISSION
FILED

ARTICLES OF INCORPORATION
OF
A TAX-EXEMPT CORPORATION

MAR 26 3 29 PM '01

APPROVED BY Mindy Robinson COMMUNITY L.T. OF TEMPE, INCORPORATED
DATE APR 11 2001 (Arizona Nonprofit Corporation)
TERM _____
DATE _____
- 0983705-0

1. NAME: The name of the Corporation is Community L.T. of Tempe, Incorporated (the "Corporation").
2. PURPOSE: The Corporation is organized and shall be operated, as a nonprofit corporation under the laws of the State of Arizona, exclusively for charitable purposes, within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986, or the corresponding provision of any future United States Internal Revenue law (the "Code"). The Corporation may conduct any or all lawful affairs for which an Arizona nonprofit corporation may be incorporated except for activities not permitted to be carried on (a) by a corporation described in section 501(c)(3) of the Code or (b) by a corporation contributions to which are deductible under section 170(c)(2) of the Code.
3. CHARACTER OF AFFAIRS: The Corporation initially intends to:
 - (a) To provide opportunities for low-income and moderate-income people to secure housing that is decent and affordable and that is controlled by the residents on a long-term basis;
 - (b) To preserve the quality and affordability of housing for future low-income and moderate-income residents of the community;
 - (c) To combat community deterioration in economically disadvantaged neighborhoods by promoting the development, rehabilitation, and maintenance of decent housing in these neighborhoods; by promoting economic opportunities for low-income and moderate-income residents of these neighborhoods; by making land available for projects and activities that improve the quality of life in these neighborhoods in improving the safety and well-being of their community;
 - (d) To help preserve economic and ethnic diversity in Tempe, Arizona neighborhoods;
 - (e) To increase home ownership in Tempe, Arizona neighborhoods; and
 - (f) To provide support services and training to help families maintain homes and achieve family goals.

4. INCORPORATOR: The name and address of the Incorporator is:

Michael Patten
212 East Greentree Drive
Tempe, AZ 85284

5. BOARD OF DIRECTORS: The initial Board of Directors shall consist of 13 director(s). The name(s) of the person(s) who is (are) to serve as Director(s) or until his (her) (their) successor(s) is (are) elected and qualified is (are):

Fredericka Clarke	1155 West Grove Parkway, #349, Tempe, AZ 85283
Richard Erdmann	513 East Libra Drive, Tempe, AZ 85283
Luis Fernandez	1046 West Elna Rae, Tempe, AZ 85281
Richard Gart	2090 East Apache Boulevard, Tempe, AZ 85821
Pen E. Johnson	333 East 15 th Street, Tempe, AZ 85281
Spike Lawrence	2047 East LaVieve Lane, Tempe, AZ 85284
Alan A. Matheson, Jr.	8342 South Mill Avenue, Tempe, AZ 85284
Xavier Morales	106 West Hu Esta Drive, Tempe, AZ 85282
Michael Patten	212 East Greentree Drive, Tempe, AZ 85284
Bonnie Richardson	31 East 5 th Street, Tempe, AZ 85281
Charles D. Vester	1715 South Sierra Vista Drive, Tempe, AZ 85281
William G. Was, Jr.	602 West 1 st Street, Tempe, AZ 85281
Elizabeth Wilson	508 West Parkway Boulevard, Tempe, AZ 85281

6. STATUTORY AGENT: The name and address of the statutory agent of the Corporation is:

Timothy Klont
31 East Fifth Street
Tempe, Arizona 85281

7. LIMITATIONS: No part of the net earnings of the Corporation shall inure to the benefit of or be distributable to, its members, directors, or any private shareholder or individual, within the meaning of section 501(c)(3) of the Code. No substantial part of the activities of the Corporation shall be the carrying on of propaganda or otherwise attempting to influence legislation, except as is otherwise provided in section 501(h) of the Code, and the Corporation shall not participate or intervene in (including publishing or distributing statements) any political campaign on behalf of any candidate for public office, all within the meaning of section 501(c)(3) of the Code.

8. DISSOLUTION: Upon dissolution of the Corporation, the Board of Directors shall, after paying or making provision for the payment of all the liabilities of the Corporation, either dispose of all its assets exclusively for one or more exempt purposes, within the meaning of section 501(c)(3) of the Code, or distribute the assets to such organizations as shall then qualify as exempt organizations under section 501(c)(3) of the Code as the Board of Directors shall determine. Any such assets not disposed of shall be disposed of by a court of competent jurisdiction of the county in which the principal place of the Corporation is then

located exclusively for charitable, scientific, or educational purposes within the meaning of section 501(c)(3) of the Code or to organizations, as said court shall determine, that are organized and operated exclusively for such purposes.

9. **LIABILITY OF MEMBERS, DIRECTORS AND OFFICERS:** To the full extent now or in the future permitted by law, any and all personal liability of a current or former member, director, or officer to the Corporation for damages, monetary or otherwise, for breach of any duty as a member, director, or officer including without limitation, fiduciary duty, is eliminated. The private property of the Corporation's members, directors and officers shall be exempt from all corporate debts.
10. **PRIVATE FOUNDATION:** In the event and for so long as the Corporation is a private foundation as defined in section 509(a) of the Code:
- (a) The Corporation shall distribute its income for each taxable year at such time and in such manner as not to become subject to tax under section 4942 of the Code;
 - (b) The Corporation shall not engage in any action of self-dealing, as defined in section 4941(d) of the Code;
 - (c) The Corporation shall not retain any excess business holdings, as defined in section 4943(c) of the Code;
 - (d) The Corporation shall not make any investments in such manner as to subject it to tax under section 4944 of the Code; and
 - (e) The Corporation shall not make any taxable expenditures, as defined in section 4945(d) of the Code.

Notwithstanding the restrictions imposed in this paragraph 10, if section 508(e) of the Code is amended to remove the requirement that any or all of such restrictions be included in the governing instrument of the Corporation, then those foregoing restrictions that are no longer required will be deemed deleted and will have no further force or effect.

11. **MEMBERS:** The Corporation will have members. There shall be one class of members all of whom shall have the same voting rights, but the Bylaws may establish separate membership categories, which shall not vote as classes. Qualifications for, and rights and privileges of, membership in the various classes shall be subject to such rules as may be established in the Bylaws.

IN WITNESS WHEREOF, for the purpose of forming the Corporation under the laws of the State of Arizona, the undersigned incorporators have executed these Articles of Incorporation this 26th day of March, 2001.


Michael W. Patten, Incorporator

MAY 13 1999

Internal Revenue Service
District Director

Department of the Treasury

P. O. Box 2508
Cincinnati, OH 45201

Date: May 10, 1999

Person to Contact:

Mrs. Bonnie Lawson 31-04018

Customer Service Representative

Telephone Number:

877-829-5500

Fax Number:

513-684-5936

Neighborhood Housing Services
of Phoenix
320 E. McDowell Rd. Ste. 120
Phoenix, AZ 85004-4515

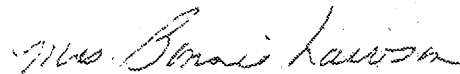
Dear Sir or Madam:

This letter is in response to your correspondence requesting a copy of the exemption application and the letter of determination for your organization, Neighborhood Housing Services of Phoenix.

You would be permitted to have a copy of the organization's original ruling letter and tax exempt application, but we were unable to locate these documents. However, we can affirm that your organization received exempt status in October 1975 and is currently exempt under section 501(c)(03) of the Internal Revenue Code.

If you have any questions, please call us at the telephone number shown in the heading of this letter.

Sincerely,



Mrs. Bonnie Lawson
Customer Service Representative

Internal Revenue Service
District Director

Department of the Treasury

LA:EO:8
Our Letter
October 25, 1975
Person to
W. H. Connett
Contact
213- 8

a APR 24 1981

Neighborhood Housing Services of
Phoenix, Inc.
1002 East Palm Lane
Phoenix, Arizona 85006

Gentlemen:

This modifies our letter of the above date in which we stated that you would be treated as an organization which is not a private foundation until the expiration of your advance ruling period.

Based on the information you submitted, we have determined that you are not a private foundation within the meaning of section 509(c)(1) of the Internal Revenue Code, because you are an organization of the type described in section 509(a)(1)*. Your exempt status under section 501(c)(3) of the Code is still in effect.

Grantors and contributors may rely on this determination until the Internal Revenue Service publishes notice to the contrary. However, a grantor or a contributor may not rely on this determination if he or she was in part responsible for, or was aware of, the act or failure to act that resulted in your loss of section 509(a)(1)* status, or acquired knowledge that the Internal Revenue Service had given notice that you would be removed from classification as a section 509(a)(1)* organization.

Because this letter could help resolve any questions about your private foundation status, please keep it in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,



District Director

and Section 170(b)(1)(A)(vi)
P.O. Box 2350, Los Angeles, Calif. 90053

Letter 1050 (DO) (7-77)